

STRATEGIC FRAMEWORK

DATE: June 11, 2002

TO: Members of the City Council, and
Planning Commission

FROM: Robert McGill, Strategic Framework Citizen Committee
Finance Subcommittee Chair

SUBJECT: Findings of the Strategic Framework Citizen Committee
Finance Subcommittee

One of the greatest challenges in implementing the current and future planning for the City will be to provide the necessary public facilities to adequately serve the population. The City faces a \$2.5 billion (2002 dollars) shortfall in public facility needs to be resolved over the 20 year planning horizon. This shortfall in facilities has been identified based on current community plans, and exists independent of the proposed Strategic Framework.

The Finance Subcommittee members of the Strategic Framework Citizen Committee began their work to address this challenge over a year ago. The group represents a broad base of citizens ranging from economists and bankers to builders, community leaders, and land use professionals. These citizens have also met numerous times with independent municipal financial advisor, Kelling, Northcross & Nobriga, in the preparation of a Facilities Financing Study for the City.

The Finance Subcommittee was charged with the task of identifying the shortfall or “gap” in City provided community facilities. The Subcommittee was further charged with identifying what sources may be available or could be financed to provide the current revenue needs for park and recreation facilities, local street traffic flow and pedestrian improvements, libraries, and fire stations in the twenty-six “Urbanized Communities.” Regional facilities such as airports and the transit system, user fee funded water and sewer utilities, storm water facilities, and ongoing operations and maintenance, were not included in this task.

The Subcommittee recommends four interconnected approaches to achieve needed City infrastructure and public facilities. These four approaches complement one another and are summarized as priorities:

1. Fiscal reform

State level - Especially critical is the need to address the inequitable redistribution by the state of property tax proceeds that renders the City of San Diego share well below that of the other

large California cities, including Los Angeles, Oakland and Sacramento. The League of California cities and the San Diego Association of Governments, over the past several years, have worked on proposals that could reduce the current fiscal incentive that favors retail development over housing. It is recommended that the City clearly support efforts that could lead to greater state-local fiscal equity for San Diego and its citizens.

Local level - Locally based financing sources and their utilization should be further probed. Broader application of redevelopment as a tool should be considered, in addition to examining the ways that redevelopment dollars are allocated to neighborhoods. New legislative approaches for tax increment financing of public facilities should also be pursued. Current mechanisms that can be useful as local community funding sources include assessment districts, community facility districts, infrastructure financing districts, and Community Development Block Grants. Community generated funding sources could be employed to partially match citywide investment as a criterion for certain types of community facilities.

2. **“Regionalization” of infrastructure expense** – Greater steps should be taken toward “regionalization” of the infrastructure expense borne by the citizens of the City of San Diego. For example, to the extent the City is able to achieve transit-oriented development, an enhanced amount of regional transportation funding should be forthcoming in support of such regionally beneficial land use and transportation patterns. It is also very important that the program that is proposed for voter reauthorization of the TransNet transportation sales tax include incentives to achieve beneficial land use patterns. This should include specific funding for transportation projects in cities with land use plans that can achieve such benefits for the region.
3. **Efficient use of shared resources** – The efficient use of shared resources can help the City meet facility needs. Coordination between the City’s Park and Recreation, Library and other systems with the school districts, the transit agency, and utility providers can create or enhance opportunities for the joint use and functioning of public facilities and activities.
4. **Additional user fee and revenue measures** – In addition to pursuing the above approaches, user fee and revenue options should be considered in order to make funding available for needed facilities. A portion of general fund dollars currently used by the City for other purposes, such as residential trash collection, could be replaced by user fees similar to the fees applied by all other cities in the region. The Finance Subcommittee reviewed the findings of independent municipal financial advisor, Kelling, Northcross & Nobriga, and concluded there are several major revenue options available. A chart (Table 1) is provided on page 3 of the accompanying consultant prepared Facilities Financing Study that details the revenues that could be generated by a number of sources. The financial advisor has projected the need for an annual revenue stream of \$95 million to finance and build the facilities within the 20-year planning horizon. It could be carried out by the flexible application of some mix of these identified sources, and financed through the use of bonding, based on a “quality of life” or similar measure before the voters. This would allow the City to leverage the revenue stream.

The Finance Subcommittee further identified those options that most merit review by the City, including the following:

- Instituting a residential refuse collection fee (requiring a citywide majority vote)
--\$33 million in annual cost-based revenue from an approximate \$9 monthly charge to those users currently receiving 'no-charge' City funded trash collection service
- Application of a utility users tax (majority vote)
--\$45 million in annual generated revenue based on the example of a 2.5% tax
- Increasing the transient occupancy tax (majority vote)
--\$23 million in annual additional revenue based on the example of an increase of 2.5% to a total of 13%, (San Diego would maintain its competitive advantage over both Los Angeles and San Francisco which have rates of 14%)
- Increasing the real property transfer tax (majority vote)
--\$21 million in annual generated revenue based on the example of a rate at or below other peer cities of \$2.75 per one-thousand dollars of property valuation at sale

The required ongoing annual revenue stream of \$95 million would be somewhat exceeded by combining the above examples (\$122 million), providing for a degree of flexibility in the selection or full application of these sources. This is based on the assumption the City will pay for the facility improvements with a combination of generated revenues and bonding. It is important to note that there are additional revenue mixes that could also be utilized in order to resolve the City public facilities shortfall. For example, the "Recommended Financing Options Listing," attached to this memorandum, includes the above examples as well as two additional measures for consideration: Increases to the Business License Tax, and Transfers from Municipal Utilities (reinstatement of the nearly phased out Water/Sewer Utility Right-of-Way Fee).

The action recommended by the Finance Subcommittee is that the City pursue a funding and financing program fully sufficient to rectify over 20 years the identified \$2.5 billion shortfall in park and recreation facilities, local street traffic flow and pedestrian improvements, libraries, and fire stations. It is further recommended the City combine the use of directly generated revenues with bonding to carry out needed improvements that will enhance quality of life for all San Diegans.

Robert McGill
Strategic Framework Citizen Committee,
Finance Subcommittee Chair

Attachment

